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UNCLAS SECTION 01 OF 02 DJIBOUTI 000597

SIPDIS

SENSITIVE

STATE FOR AF, AF/E AND AF/EPS ADLER;
CJTF HOA FOR J5 MAJOR RATINAUD AND MARCENT DJIBOUTI

E.O. 12958: N/A

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SUBJECT: DORALEH PORT: AN OPPORTUNITY FOR AMERICAN BUSINESS
IN DJIBOUTI

1. (SBU) Summary: The prospective mega-project at Doraleh port in Djibouti offers significant opportunities for U.S. companies. Dubai Ports International has hired an American company, Han-Padron Associates of New York, to do the feasibility study and full market forecast for all aspects of the project. Moreover, a Master Plan for port sectors is to be completed by mid-November 2004. DPI and Han-Padron recently held talks in Washington with USTDA and EXIM on financing for this portion of the project. A major issue to be resolved is the future of the existing oil company business in Djibouti - including U.S. company Exxon Mobil - once Emirates National Oil Company assumes management of a new oil container terminal envisioned for the new port. End Summary.

2. (SBU) Ambassador and Pol/Econ met April 15 with visiting Dubai Ports International (DPI) officials and American company Han-Padron Associates regarding future developments on the Doraleh Port project and to hear their brief on USTDA and EXIM meetings the group held in Washington the week prior. DPI won its first contract with the Port of Djibouti in 1999. Since then, DPI has acquired the contract for management of the Ambouli International Airport in Djibouti. DPI told Ambassador and Pol/Econ that it appreciated the presence of both Djiboutian government officials and Department of State representatives at the Washington meetings. They felt their presence gave greater credibility to their presentation to EXIM and TDA.

TAKING PRELIMINARY STEPS

3. (SBU) DPI stated that from a business viewpoint, Djibouti is in line with the future of shipping in the region and that the Government of Dubai supports finding a commercially and financially feasible way to develop port possibilities in Djibouti. In January 2004 DPI put out a Request for Proposals (RFP) to get a development study and project started. DPI began the bid process for Sole Source funding on February 15. Through a competitive bidding process, American company Han-Padron Associates was chosen to do the feasibility study and full market forecast for all sectors of the project: airport, port, free-zone, etc. It will be necessary to study the current port as well as the future container terminal to answer pivotal questions on the development process, such as how does migration to the new container terminal facility happen and what is to be done with the current oil terminal.

A MASTER PLAN IN THE WORKS

4. (SBU) The creation of a Master Plan for Port sectors is to be completed by mid-November. This plan will include what to do with the current port facility and how to take care of pollution at the oil terminal in that port. DPI's view is that if there is a stable competitive service provider within a short distance from the East-West shipping route, there would be strong potential for use of Djibouti for transshipment activities from Dubai. This possibility can provide a large potential economic benefit for Djibouti. Han-Padron brought TSG, a free-zone specialist based in Washington DC, Black & Veatch, to look at water and electricity, and Mercator out of Tacoma, Washington to look at the marketing forecast. DPI said it is very interested in working with the three American companies on the Doraleh project.

NEED FOR QUICK TDA ACTION

5. (SBU) DPI mentioned one caveat: if the decision by USTDA to fund the feasibility study does not come quickly, DPI will have to look elsewhere immediately for financing. It is under pressure from the Government of Djibouti to move forward. The estimated cost of the project, from preliminary studies, is \$300 million. This amount would rise to \$750 million if

the free-zone, water and electricity were added. Han-Padron will study the costs, and pros and cons of the project and whether the move to Doraleh will be financially and economically beneficial. DPI is confident that over the lifetime of the project, a good return on investment is likely based on similar experiences in India and Romania. The DPI official said the outlook is based on a project's predictions of minimal profit returns.

ROLE FOR ENOC

16. (SBU) Emirates National Oil Company (ENOC) has contracted with the Government of Djibouti to build a 21-tank farm at Doraleh with a capacity of 235,000 cubic meters. These tanks will be made available by ENOC for commercial leasing. DPI addressed the concern expressed by oil companies currently in Djibouti, that the ENOC contract was a move to push them out of the Djiboutian market. DPI clarified that these companies will have to lease a tank from ENOC and relocate to Doraleh if they choose to continue to do business in Djibouti. The amount of pollution caused by existing tanks cannot be sustained, DPI said. DPI indicated that the possibility of increased transshipment could allow the Djiboutian market to hold multiple competitors and emphasized that ENOC is not going to take existing business from others but will bring in new business. The oil farm project is set to go operational May 31, 2005.

THE LABOR QUESTION AND THE FUTURE

17. (SBU) Addressing the issue of employment and finding necessary skilled labor, DPI said the Master Plan will provide answers to these issues. It is clear, DPI said, that a large number of skilled workers would need to be brought in for the construction of the facility. DPI is also interested in promoting entrepreneurship in Djibouti and is looking to find seed projects to fund that would create business opportunities. These businesses would then be encouraged to seek contracts with the port.

18. (SBU) DPI said for the duration of the construction (15 months) it would like to have two Han-Padron associates on the ground in Djibouti to provide independent supervision. The representatives hoped that, once they had procured office space and were set up, the Ambassador and the Embassy would stay in close contact. Embassy pledged to do so.

RAGSDALE